

Energy markets off balance



Johannes Teyssen and Antje Kanngiesser

Dear reader,

We look back on an eventful and successful year. In 2021, we set the course for the future from an organisational, personnel and economic perspective despite an extremely turbulent energy market. In organisational terms, we are following the value chain and strengthening internal collaboration. Focusing on diversity and inclusion, there has been a gradual transformation in the Executive Board and other key functions, and we have further reduced the size of the Board of Directors. We can also see this transformation at the top of the company. Just a year ago, we – CEO Antje Kanngiesser and the Chairman of the Board of Directors Johannes Teyssen – read the Annual Report as the designated CEO and an “interested market observer”. Now, we are responsible for managing the entire business, a role we are excited to take on.

2021 was an eventful year, particularly if we look at the markets. The European energy markets were thrown off balance, especially in the last few months of the year. For the first time, discussions are being held across Europe about the physical security of supply for industrial, commercial and private customers. We believe this development is attributable to four main factors. Firstly, the energy appetite in Asia that is driving a huge rise in demand for gas and coal. Secondly, geopolitical uncertainties in European gas supply on account of increasing tension between Russia and the EU. Thirdly, unexpected downtimes of several French nuclear power plants and, fourthly, concerns about the security of energy supply. Due to these factors, we saw rocketing gas prices that were almost ten times higher in December than the long-term price level. In the wake of this, there was also a large increase in electricity prices. Although the situation eased after the Christmas period on account of warmer winter temperatures and announcements of

additional LNG deliveries, prices remain at a high level and are still highly volatile. These circumstances encouraged policy-makers across Europe and in Switzerland to discuss desirable changes in order to prevent a similar escalation in future winters, for example, by means of gas storage reserves in Germany or storage management of hydropower plants in Switzerland.

Significantly improved scope of action for Alpiq

The record prices on the European energy exchanges also pushed the trading system to its financial limit. All market participants had to back their standard market price hedges and forward-looking supply agreements with liquid financial collateral to bring them in line with the new price quotations, regardless of whether they have their own power plants to cover future requirements, like we do at Alpiq, or are pure traders. To this end, several larger market participants obtained liquidity guarantees worth tens of billions. Due to the increasingly radical market developments until the start of the Christmas week and persistently high price expectations for the winter months in the first quarter of 2022, Alpiq had prepared a range of extreme scenarios at an early stage and discussed these with its shareholders and banks. The liquidity provided by our shareholders as a precautionary measure significantly improved our scope of action. The support sought from the federal government as a purely precautionary measure was no longer required as the markets eased in the last few days of the year. Our company's many internal optimisation measures have significantly increased our resilience to future market developments. As a company, we will certainly benefit from the significantly increased electricity prices in the longer term, even if this temporarily increases the liquidity requirements.

Positive results of operations up on the previous year

Alpiq performed well at an operational level despite a challenging environment characterised by turbulence on the international energy markets. In 2021, we generated revenue of CHF 7.7 billion. However, the revenue growth is mainly attributable to the large increase in market prices in the second half of the year.

EBITDA before exceptional items came to CHF 302 million, thus significantly exceeding the previous year. One of the main factors contributing to this was energy trading, which reported a positive result of CHF 258 million in the 2021 financial year. The performance of Swiss power production was down on the previous year, as expected. The unplanned extension of the overhaul of the Leibstadt nuclear power plant caused Group earnings to decrease by CHF 62 million. Internationally, we profited from our flexible and efficient power plant portfolio, significantly exceeding the previous-year result with earnings of CHF 80 million.

By contrast, the net result pursuant to IFRS shows a substantial loss. This is mainly due to the above-mentioned negative valuation effects on our standard market price hedging transactions as a result of the record prices for electricity and gas at the end of 2021. According to IFRS guidelines, the fair value changes of financial hedges have to be recognised in the reporting year. As a result, there is an accounting-related shift of earnings to subsequent years totalling CHF 521 million because under IFRS it is not permitted to measure future production volumes and power purchase agreements at fair

value. We therefore disclose corresponding valuation fluctuations as “Exceptional items”, like most participants on the energy trading markets. The net result for 2021 pursuant to IFRS (i.e. including exceptional items) therefore decreased significantly from CHF 99 million to CHF -271 million. At the same time, the resulting cash flows are also merely temporary in nature. Thus, the financial security deposits we have to make now will then be returned to us in full.

Securing liquidity and financing in a challenging market environment

A glance at the balance sheet reveals the following: equity stood at CHF 3.6 billion at 31 December 2021, slightly below the level of the previous year. The equity ratio decreased from 51.0 % to 26.2 %, primarily due to the extension of the balance sheet as a result of the energy prices, the above-mentioned effects of record prices, valuation fluctuations and hedging on the energy exchanges. Here too, we expect a strong recovery of the balance sheet ratios from 2022 onwards as supply from our power plants is used for future hedging transactions. At the end of 2021, Alpiq's liquidity came to around CHF 900 million and is therefore in a sound position for the new financial year.

Alpiq continues to develop

In addition to a strong operating performance, the new Executive Board initiated significant internal change processes in the past year. Our objective is to focus on Alpiq's core business and to increase the profitability on our core markets. Targeted adjustments were made to structures and processes, and a values-based management culture was introduced. These measures will also positively impact the company in the medium and long term. We strive to create economic value for our shareholders while paying due attention to social and ecological behaviour. It is with regard to these dimensions of sustainability that we want to demonstrate our performance. And it is by this that we want our success to be measured.

Flexible power production to increase the security of supply

As a company, we are committed to the security of supply. This is more important than ever before. With the failure of the framework agreement, the electricity agreement has also receded into the distance. By 2025, Switzerland's neighbouring countries have to reserve at least 70 % of the cross-border capacity for trade within the EU. This increases the risk that Switzerland will be side-lined in the event of bottlenecks. Germany's progressing exit from nuclear power and coal as well as the increasing risk of age-related downtimes of nuclear power plants in France create more uncertainty. Larger plants are being disconnected from the grid in both countries and are being replaced by fluctuating wind and solar power in the course of the energy transition. Therefore, additional flexible power production is required in winter to strengthen the security of supply in Switzerland. Alpiq is making every effort to ensure that projects which can make a significant contribution in this regard are also implemented in Switzerland.

Nant de Drance pumped storage project near to completion

With the Nant de Drance pumped storage power plant, a large-scale project is nearing completion. For more than ten years, everyone involved has been working hard to implement this project, displaying daily commitment and visionary thinking under dramatically changing framework conditions. The power plant, in which Alpiq holds a stake of 39 %, has successfully completed the last test phase of technical commissioning. The 900 MW plant will be commissioned for commercial use from mid-2022 and will make an important contribution to the security of supply in Switzerland and Europe from hydropower.

“Gornerli” storage project shows great potential

The area above Zermatt presents an opportunity for the “Gornerli” reservoir project. The project looks promising. With an additional 650 million kWh of power production in the critical winter months, the “Gornerli” project currently has the greatest potential on the list of projects being discussed at Switzerland’s “Hydropower Round Table”. Together with the municipality of Zermatt, the power plant company Grande Dixence SA, in which Alpiq hold a stake of 60 %, has been pushing forward the project in the last few months. This would enable storage of around 150 million cubic metres of water for the winter, which would be turned into renewable electricity in the existing Grande Dixence power plant complex. At the same time, it would act as a sustainable flood retention basin for the Mattertal valley.

Switzerland’s largest solar project planned

Switzerland’s most important photovoltaic system is being planned in the Alps of Valais. In the Simplon region, high above the municipality of Gondo-Zwischbergen, there is a plot of land near the Italian border that lends itself to the construction of a photovoltaic system. Together with the partners of the municipality of Gondo-Zwischbergen and the private owner of the land, Energie Electrique du Simplon SA (EES), in which Alpiq holds a stake of 82 %, is planning an 18 MW solar project. As Switzerland’s largest solar project, “Gondosolar” could produce around 23.3 million kWh of environmentally-friendly electricity a year thanks to its ideal location. More than half of this could be produced in winter, making it the first solar project of its kind.

Hydrogen as part of the energy transition

There is an urgent need for alternative energy sources in order to combat climate change. Green hydrogen is an ideal alternative to fossil fuels. With the production facility at the Gösgen hydropower plant, Alpiq had set a new milestone as a pioneer together with partners. Collaborating again with partners, we are now going one step further and planning the construction of an electrolysis plant in Freienbach (SZ) with a capacity of up to 10 MW. The plant is scheduled to be commissioned in 2023. It will have an ultimate

capacity of around 1,200 tons of hydrogen a year and will also feed waste heat into the regional district heating grid.

Changes in the composition of the Board of Directors and Executive Board

As already mentioned above, 2021 was characterised by changes in the Board of Directors and the Executive Board. Jens Alder, who had successfully led Alpiq through a challenging transformation phase since 2015 as Chairman of the Board of Directors and Executive Chairman, left our company at the end of the year. He managed an extensive restructuring process and implemented the change in the shareholder structure as well as the delisting of the Alpiq shares from the Swiss Exchange. On behalf of the Board of Directors, the Executive Board and our employees, we would like to thank Jens Alder for his many years of dedicated commitment to Alpiq.

The collaboration between the members of Alpiq's new Executive Board is also proving to be a success. With Luca Baroni as our new CFO and Alexandra Machnik as Head Corporate Services, we have acquired well-established leaders with extensive expertise. We are also looking forward to Lukas Gresnigt becoming the Head of the International business division from April 2022. As a proven and experienced leader with an excellent network, he will optimally strengthen our Executive Board. He will succeed Matthias Zwicky, who is retiring after almost 20 years of successful work for Alpiq. Our common objective is to focus on our core business and to increase the long-term value and profitability on our core markets.

A huge thank you

We would like to thank our customers, partners and shareholders for the trust they have placed in Alpiq. A special thank you goes to our employees, who have delivered an excellent performance in a very challenging environment. Without their dedication, we would not have been able to achieve such a strong operating performance in 2021.

Alpiq will profit from the high energy prices in the medium and long term

We can draw a positive balance and look to the future with confidence. Alpiq handled the severe situation caused by unforeseeable and unprecedented market turbulence in a forward-looking and proactive manner and was able to increase its scope of action thanks to its solid footing and supportive shareholders. Alpiq has a stable operating business with high profitability, and in the medium and long term will benefit at operating level from the rising energy prices.

Positive earnings expected for 2022

Alpiq is well positioned with its business model. The rising prices, which are hedged in advance, will have a positive effect on earnings. Due to the dynamic market development,

Alpiq expects positive EBITDA before exceptional items at a level similar to the past two years for 2022.

From a current perspective, Alpiq expects positive net income (IFRS) for the 2022 financial year. The shift of earnings in the 2021 financial year and their negative accounting effects will have a delayed positive impact in subsequent years.

Johannes Teysen
Chairman

Antje Kanngiesser
CEO

23 February 2022

Key Financial Figures

CHF million	Results of operations before exceptional items			Results under IFRS		
	2021	2020 (adjusted) ²	% change	2021	2020 (adjusted) ²	% change
Net revenue	7,701	3,834	101	7,177	3,905	84
Earnings before interest, tax, depreciation and amortisation (EBITDA)	302	262	15	- 77	282	> - 100
Depreciation, amortisation and impairment ¹				- 126	- 80	58
Earnings before interest and tax (EBIT)				- 203	202	> - 100
As % of net revenue				- 2.8	5.2	
Earnings after tax from continuing operations				- 271	155	> - 100
As % of net revenue				- 3.8	4.0	
Earnings after tax from discontinued operations				0	- 56	> 100
Net income				- 271	99	> - 100
As % of net revenue				- 3.8	2.5	

- 1 In 2020, including reversals of impairment losses
 2 See note 1.4 of the notes to the consolidated financial statements

CHF million	31 Dec 2021	31 Dec 2020 (adjusted) ²	% change
Total assets	13,557	7,368	84
Total equity	3,558	3,761	- 5
As % of total assets	26.2	51.0	
Net debt ¹	675	249	171
Net debt / EBITDA before exceptional items	2.2	1.0	

- 1 See note 3.1 of the notes to the consolidated financial statements
 2 See note 1.4 of the notes to the consolidated financial statements

	2021	2020	% change
Own production (GWh) ¹	12,036	13,690	- 12
Number of employees at the reporting date ²	1,266	1,258	1
Of which in Switzerland	701	704	- 0
Of which in surrounding European countries	565	554	2

- 1 Net share attributable to Alpiq from total power plant production (after deducting pumped energy), excluding long-term purchase contracts
 2 Full-time equivalents

About us



Lake Emosson in the municipality of Finhaut in the canton of Valais. Photo: Alpiq

Alpiq is a leading Swiss energy company that is active in various countries and markets throughout Europe. Our energy business contributes to a better climate and improves the security of supply in Switzerland and for our customers on the European markets. We pursue a sustainable, financially sound and risk-adjusted business model.

Our core business is the production of electricity from flexible CO₂-free hydropower and nuclear power in Switzerland as well as from wind power and photovoltaics in several European countries. In addition, we operate modern and flexible gas-fired combined-cycle power plants in Italy, Spain and Hungary. By producing green hydrogen, we are pioneers in contributing to CO₂-free heavy-duty traffic and are continuously expanding our competence.

Our core business also comprises energy trading. We sell production from our own plants as well as third-party plants on our modern and efficient trading platform. We trade with electricity, gas and other energy products in many European countries. A sustainable and cost-effective energy procurement strategy is an important aspect of any business. Our Sales & Origination team supports industrial and business customers with sustainable energy management as well as a wide range of energy solutions and services.

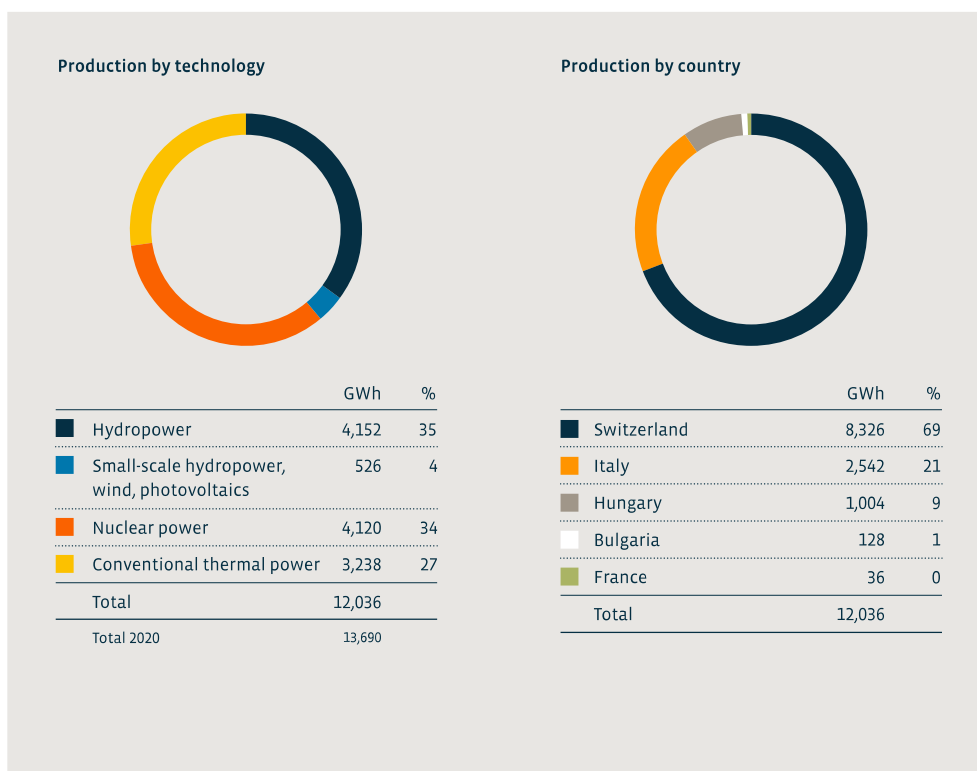
We have around 1,300 employees and are headquartered in Lausanne.

Power Production in 2021

Power Plants	Installed capacity at 31.12.2021 ¹		Production 2021 ²	
	MW	MW	GWh	GWh
Hydropower		2,910		4,152
Switzerland	2,910		4,152	
Small-scale hydropower, wind, photovoltaics		329		526
Switzerland	19		54	
Bulgaria	73		128	
France	13		36	
Italy	224		308	
Nuclear power		676		4,120
Switzerland	676		4,120	
Conventional thermal power		1,308		3,238
Italy	491		2,234	
Spain	414		0	
Hungary	403		1,004	
Total		5,223		12,036

1 Based on Alpiq's net share of total power plant production

2 Alpiq's net share of total power plant production (after deducting pumped energy), excluding long-term purchase contracts



Organisational structure

By the end of 2021, we organised our business into three business divisions: Switzerland, International and Digital & Commerce.

The **Switzerland** business division comprises the production of electricity from power plants in Switzerland. This includes run-of-river power plants, storage and pumped storage power plants as well as interests in the Gösgen and Leibstadt nuclear power plants.

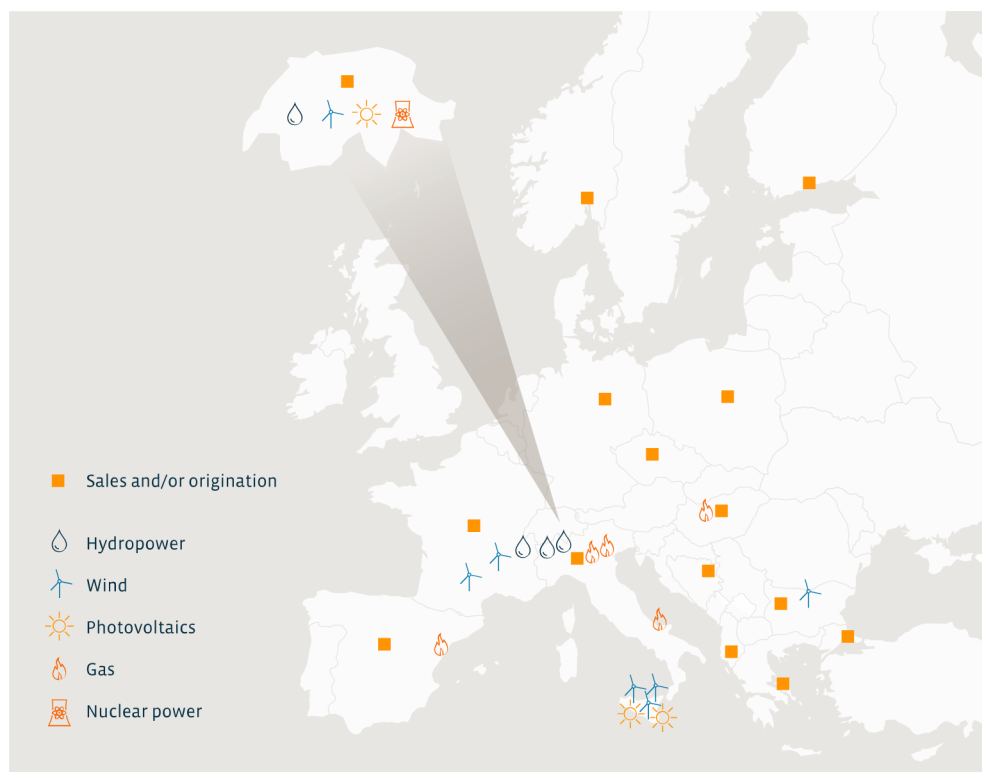
The **International** business division comprises the production of electricity from new renewable energies, namely wind, small-scale hydropower and photovoltaics, in Switzerland, Italy, France and Bulgaria. This business division also produces electricity and heat from gas-fired combined-cycle power plants in Hungary, Italy and Spain.

The **Digital & Commerce** business division not only sells electricity produced by Alpiq’s plants on the European electricity trading market, but also comprises international energy trading (Merchant Trading) and direct marketing for industrial and business customers (B2B). We are planning a targeted expansion of these two business fields in synergy with our origination business. To counter the increasing volatility on the energy markets, we offer our customers flexible contracts and the option to manage their financial risks associated with energy prices. Keywords here are structured contracts based on virtual power plants (VPPs) and long-term power purchase agreements (PPAs), in particular for renewable energies. We have extensive experience in marketing power

production and optimising renewable energies. To improve our competitiveness, we are investing in the development of our optimisation and trading platform, using the possibilities offered by digital technologies.

Active throughout Europe

We are represented by branches in various European countries, both in trading and sales as well as with energy services. We operate our own power plants in Switzerland, Italy, France, Spain, Hungary and Bulgaria.



Under the new lead of CEO Antje Kanngiesser, CFO Luca Baroni and the Executive Board, we made targeted adjustments to our structures and processes in 2021 with the aim of focusing on Alpiq’s core business and increasing the value and profitability on its core markets. The Alpiq Group’s financial reporting will be adjusted accordingly for the publication of the Half-Year Results 2022 and will reflect the reorganisation of the business divisions as implemented in the internal reporting from 1 January 2022.

Financial Calendar

24 February 2022: Annual media conference

28 April 2022: Annual General Meeting of Alpiq Holding Ltd.

25 August 2022: Media Conference Half-Year Results 2022